



**SA SA INTERNATIONAL HOLDINGS LIMITED**  
**莎莎國際控股有限公司**

(Incorporated in the Cayman Islands with limited liability)  
 (Stock Code: 178)

**ANNOUNCEMENT OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2004**

**Highlights**

- Group turnover increased by 17.3% to HK\$1,883.3 million on a Comparable Basis\*.
- Group retail and wholesale turnover increased by 17.9% to HK\$1,716.1 million on a Comparable Basis\*.
- Sa Sa's retail and wholesale business in Hong Kong and Macau recorded an 18.7% increase for the full year, and a year-on-year 29.3% increase for the second half of the fiscal year.
- Sa Sa's retail and wholesale turnover increased by 23.8% for the Singapore and Malaysia markets.
- The Group recorded a significant improvement in the performance of our beauty services.
- Profit attributable to shareholders rose by 121.4%, from HK\$68.2 million to HK\$151.1 million.
- Diluted earnings per share increased by 122.6%, from 5.3 HK cents to 11.8 HK cents.

\* See Operations Review section for definition

The Board of Directors ("Board") of Sa Sa International Holdings Limited ("Company") has pleasure in presenting the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31st March 2004 as follows:

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	Restated 2003 <b>HK\$'000</b>
Turnover	2	<b>1,883,334</b>	1,641,385
Cost of sales		<b>(1,079,020)</b>	(912,110)
Gross profit		<b>804,314</b>	729,275
Other revenues	2	<b>23,268</b>	24,620
Staff costs		<b>(299,492)</b>	(292,902)
Depreciation and amortisation		<b>(32,907)</b>	(44,468)
Other operating expenses		<b>(310,219)</b>	(307,890)
Operating profit		<b>184,964</b>	108,635
Finance costs		<b>(2)</b>	(237)
Loss on disposal of subsidiaries		<b>-</b>	(11,800)
Surplus/(deficit) on revaluation of an investment property		<b>200</b>	(123)
Impairment of goodwill		<b>-</b>	(3,688)
Profit before taxation		<b>185,162</b>	92,787
Taxation	3	<b>(34,087)</b>	(33,478)
Profit after taxation		<b>151,075</b>	59,309
Minority interests		<b>-</b>	8,913
Profit attributable to shareholders		<b>151,075</b>	68,222
Dividends	4	<b>155,507</b>	76,001
Earnings per share	5		
Basic		<b>11.9 cents</b>	5.3 cents
Diluted		<b>11.8 cents</b>	5.3 cents

**CONSOLIDATED BALANCE SHEET**

	<i>Note</i>	2004 HK\$'000	Restated 2003 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		98,347	89,306
Investment securities		1,070	37,723
Deferred tax assets		19,275	18,124
		<b>118,692</b>	<b>145,153</b>
<b>Current assets</b>			
Inventories		262,152	215,880
Trade receivables		15,653	13,134
Other receivables, deposits and prepayments		78,920	55,081
Tax recoverable		1,569	2,331
Investment securities		35,181	33,891
Cash and bank balances		704,954	650,913
		<b>1,098,429</b>	<b>971,230</b>
<b>Current liabilities</b>			
Trade and bills payables		72,587	89,314
Other payables and accrued charges		93,323	80,991
Taxation payable		32,153	32,102
Current portion of receipts in advance		83,415	76,134
		<b>281,478</b>	<b>278,541</b>
<b>Net current assets</b>		<b>816,951</b>	<b>692,689</b>
<b>Total assets less current liabilities</b>		<b>935,643</b>	<b>837,842</b>
<b>Non-current liabilities</b>			
Receipts in advance		75,018	72,888
Retirement benefits obligations		8,954	3,840
Deferred tax liabilities		2,087	838
		<b>86,059</b>	<b>77,566</b>
<b>Net assets</b>		<b>849,584</b>	<b>760,276</b>
<b>Capital and reserves</b>			
<b>Share capital</b>		<b>129,306</b>	<b>126,668</b>
<b>Reserves</b>	6	<b>603,237</b>	<b>582,941</b>
<b>Proposed dividends</b>	6	<b>117,041</b>	<b>50,667</b>
<b>Shareholders' funds</b>		<b>849,584</b>	<b>760,276</b>

*Notes*
**1 Basis of preparation**

The accounts have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings and investment properties, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group has changed its accounting policy for deferred taxation following the adoption of the Statement of Standard Accounting Practice ("SSAP") 12 (revised) "Income Taxes" issued by the HKSA which becomes effective for accounting periods commencing on or after 1st January 2003. The effect of adopting this revised accounting standard is set out below.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. As a result of the change, the opening reserves at 1st April 2002 and 2003 have been increased by HK\$14,391,000 and HK\$17,286,000 respectively, which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st March 2003 by HK\$18,124,000 and HK\$838,000 respectively.

**2 Revenues, turnover and segment information**

The Group is principally engaged in the retailing and wholesaling of a wide range of brand name cosmetic products and the provision of beauty and health club services. Revenues recognised during the year are as follows:

	2004 HK\$'000	Group 2003 HK\$'000
<b>Turnover</b>		
Retail and wholesale	1,716,077	1,485,124
Beauty and health club services	167,257	156,261
	<b>1,883,334</b>	<b>1,641,385</b>
<b>Other revenues</b>		
Interest income	12,353	14,481
Slide display rental income	9,456	9,195
Rental income	489	339
Sundry income	970	605
	<b>23,268</b>	<b>24,620</b>
	<b>1,906,602</b>	<b>1,666,005</b>

(a) *Primary reporting format – business segments*

	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Inter- segment elimination HK\$'000	2004 Total HK\$'000
<b>Turnover</b>	<b>1,716,077</b>	<b>167,257</b>	<b>–</b>	<b>1,883,334</b>
<b>Results</b>				
Segment results	173,710	(1,099)	–	172,611
Interest income	13,048	27	(722)	12,353
Interest expenses	–	(724)	722	(2)
Surplus on revaluation of an investment property	200	–	–	200
Profit/(loss) before taxation	<b>186,958</b>	<b>(1,796)</b>	<b>–</b>	<b>185,162</b>
Taxation				<b>(34,087)</b>
Profit after taxation				<b>151,075</b>
Minority interests				<b>–</b>
Profit attributable to shareholders				<b>151,075</b>
	Retail and wholesale HK\$'000	Beauty and health club services HK\$'000	Inter- segment elimination HK\$'000	Restated 2003 Total HK\$'000
<b>Turnover</b>	<b>1,485,124</b>	<b>156,261</b>	<b>–</b>	<b>1,641,385</b>
<b>Results</b>				
Segment results	119,715	(25,561)	–	94,154
Interest income	13,174	1,602	(295)	14,481
Interest expenses	(221)	(311)	295	(237)
Loss on disposal of subsidiaries	(5,900)	(5,900)	–	(11,800)
Deficit on revaluation of an investment property	(123)	–	–	(123)
Impairment of goodwill	–	(3,688)	–	(3,688)
Profit/(loss) before taxation	<b>126,645</b>	<b>(33,858)</b>	<b>–</b>	<b>92,787</b>
Taxation				<b>(33,478)</b>
Profit after taxation				<b>59,309</b>
Minority interests				<b>8,913</b>
Profit attributable to shareholders				<b>68,222</b>

(b) *Secondary reporting format – geographical segments*

The Group operates in China, Taiwan and South Asia. China comprises Hong Kong, Macau and Mainland China. South Asia comprises Thailand, Malaysia and Singapore.

	China HK\$'000	Taiwan HK\$'000	South Asia HK\$'000	2004 Total HK\$'000
<b>Turnover</b>	<b>1,658,276</b>	<b>57,234</b>	<b>167,824</b>	<b>1,883,334</b>
<b>Results</b>				
Segment results	174,953	466	(2,808)	172,611
Interest income	11,365	23	965	12,353
Interest expenses	–	–	(2)	(2)
Surplus on revaluation of an investment property	200	–	–	200
Profit/(loss) before taxation	<b>186,518</b>	<b>489</b>	<b>(1,845)</b>	<b>185,162</b>
	China HK\$'000	Taiwan HK\$'000	South Asia HK\$'000	2003 Total HK\$'000
<b>Turnover</b>	<b>1,427,920</b>	<b>67,662</b>	<b>145,803</b>	<b>1,641,385</b>
<b>Results</b>				
Segment results	96,808	1,994	(4,648)	94,154
Interest income	13,254	51	1,176	14,481
Interest expenses	(221)	–	(16)	(237)
Loss on disposal of subsidiaries	(11,800)	–	–	(11,800)
Deficit on revaluation of an investment property	(123)	–	–	(123)
Impairment of goodwill	(1,229)	–	(2,459)	(3,688)
Profit/(loss) before taxation	<b>96,689</b>	<b>2,045</b>	<b>(5,947)</b>	<b>92,787</b>

### 3 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004 HK\$'000	Restated 2003 HK\$'000
Hong Kong profits tax		
Current	26,572	21,570
Under provision in previous years	1,417	12,675
Overseas taxation		
Current	5,938	4,605
Over provision in previous years	(596)	(2,220)
Deferred taxation relating to origination and reversal of temporary differences	605	(2,520)
Deferred taxation resulting from decrease/(increase) in tax rates	151	(632)
	<u>34,087</u>	<u>33,478</u>

(b) The Hong Kong Inland Revenue Department has been undertaking a review of the tax position of certain offshore businesses of the Group and the results are pending. Nevertheless, possible tax liabilities are provided in these accounts.

### 4 Dividends

	Company	
	2004 HK\$'000	2003 HK\$'000
Interim, paid – 2.0 HK cents (2003: 1.0 HK cent) per share	25,644	12,667
Special, paid – 1.0 HK cent (2003: 1.0 HK cent) per share	12,822	12,667
Final, proposed – 5.0 HK cents (2003: 4.0 HK cents) per share	65,023	50,667
Special, proposed – 4.0 HK cents (2003: Nil) per share	52,018	–
	<u>155,507</u>	<u>76,001</u>

At a meeting held on 28th June 2004, the directors declared a final dividend of 5.0 HK cents and a special dividend of 4.0 HK cents per share. These proposed dividends are not reflected as dividend payables in these accounts, but will be reflected as an appropriation of distributable reserve for the year ending 31st March 2005.

### 5 Earnings per share

- (a) The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$151,075,000 (2003: HK\$68,222,000 (as restated)).
- (b) The basic earnings per share is based on the weighted average of 1,274,390,339 (2003: 1,278,133,366) shares in issue during the year.
- (c) The diluted earnings per share is based on the weighted average of 1,274,390,339 (2003: 1,278,133,366) shares in issue during the year plus the weighted average of 7,815,567 (2003: 4,231) shares deemed to be issued if all outstanding share options granted under the share option scheme of the Company had been exercised.

### 6 Reserves – Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April 2002					
– as previously reported	725,360	6,501	(25,163)	(46,353)	660,345
– effect of adopting SSAP 12 (note 1)	–	–	–	14,391	14,391
At 1st April 2002, as restated	725,360	6,501	(25,163)	(31,962)	674,736
Repurchase of own shares	(34,239)	5,282	–	(5,282)	(34,239)
Exchange differences	–	–	955	–	955
Profit for the year	–	–	–	68,222	68,222
2001/2002 Final dividend paid	–	–	–	(50,732)	(50,732)
2002/2003 Interim dividend paid	(12,667)	–	–	–	(12,667)
2002/2003 Special dividend paid	(12,667)	–	–	–	(12,667)
At 31st March 2003	<u>665,787</u>	<u>11,783</u>	<u>(24,208)</u>	<u>(19,754)</u>	<u>633,608</u>

Representing:

Reserves	582,941
Proposed dividend	50,667

At 31st March 2003

633,608

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Exchange fluctuation reserve HK\$'000	(Accumulated losses)/retained earnings HK\$'000	Total HK\$'000
At 1st April 2003					
– as previously reported	665,787	11,783	(24,344)	(36,904)	616,322
– effect of adopting SSAP 12 (note 1)	–	–	136	17,150	17,286
At 1st April 2003, as restated	665,787	11,783	(24,208)	(19,754)	633,608
Exercise of share options	25,926	–	–	–	25,926
Exchange differences	–	–	(1,190)	–	(1,190)
Profit for the year	–	–	–	151,075	151,075
2002/2003 Final dividend paid	–	–	–	(50,675)	(50,675)
2003/2004 Interim dividend paid	(25,644)	–	–	–	(25,644)
2003/2004 Special dividend paid	(12,822)	–	–	–	(12,822)
At 31st March 2004	<u>653,247</u>	<u>11,783</u>	<u>(25,398)</u>	<u>80,646</u>	<u>720,278</u>

Representing:

Reserves	603,237
Proposed dividends	117,041

At 31st March 2004

720,278

## OPERATIONS REVIEW

For the year ended 31st March 2004, the Group's consolidated turnover amounted to HK\$1,883.3 million, representing an increase of 14.7% from HK\$1,641.4 million in the previous fiscal year. On a comparable basis ("Comparable Basis") the consolidated turnover represents a 17.3% increase after Ebeca business is excluded from the turnover for last fiscal year. The Group disposed of Ebeca in March 2003. The Group's consolidated profit attributable to shareholders showed a further significant improvement and rose to HK\$151.1 million from HK\$68.2 million, an increase of 121.4%.

A number of factors contributed to this satisfactory performance. Our retail business in the Hong Kong market registered strong growth from the second quarter of the fiscal year onwards, stimulated by the relaxing of travel restrictions for PRC tourists visiting Hong Kong. There was a marked improvement in the performance of our beauty services business, and we continued to implement a policy of prudent and effective cost control measures.

### Retail and Wholesale Business

During the fiscal year 2003/04, the Group's retail and wholesale business saw growth in turnover of 17.9% on a Comparable Basis, reaching HK\$1,716.1 million. Turnover growth for the second half of the year was a significant 28.4%. However, the gross profit margin of our retail and wholesale business was adversely affected due to changes in our product mix during the period of the SARS outbreak and due to the appreciation of the Euro, which affected the cost of our purchases. In terms of profitability, the increase in turnover more than offset the decrease in gross profit margin, thus leading to a positive growth in net profit.

Our inventory turnover days were 90 days for the year ended 31st March 2004. We also officially launched our new store image in Hong Kong in February 2004. The trendy, contemporary store design provides a more spacious and comfortable shopping environment. It allows cosmetics brands to project their image better, broadens the customer base to younger customers, and generally enhances the shopping experience. As of 31st March 2004, there were 15 new image stores in the region. Other stores will be converted gradually to the new look.

In December 2003, the Group appointed a new Chief Operating Officer to strengthen the management of our retail and wholesale business.

### Hong Kong and Macau

With the ongoing relaxation of travel policy restrictions for PRC tourists visiting Hong Kong, the economic and retail environment has shown a marked improvement. Although business in the first quarter of the fiscal year was affected by the SARS outbreak, Sa Sa's core retail business in Hong Kong and Macau still managed to achieve a good performance. Turnover in Hong Kong and Macau increased by 18.7% to HK\$1,532.4 million for the year ended 31st March 2004, with a year-on-year increase of 29.3% for the second half of the fiscal year.

Increased spending by both PRC tourists and local consumers contributed to this healthy performance. Growth was recorded in both the average value per transaction (increased 4.0% to HK\$207) and the total number of transactions (increased 14.2% to 7.1 million). Sa Sa opened seven new stores during the year. As of 31st March 2004, there are 41 Sa Sa stores, plus one La Colline specialty store and one Elizabeth Arden counter.

### Singapore and Malaysia

Turnover increased by a significant 23.8% to reach HK\$105.3 million for the Singapore and Malaysian markets.

As a result of the adoption of a more aggressive strategy to increase market share, strategic measures were taken such as adjustment in the merchandise mix, increased marketing promotions, store expansions, closure of some stores and relocation of stores to higher traffic and better quality locations. The costs associated with store relocation and adjustment in merchandise mix temporarily affected our performance; therefore, a small loss was recorded.

As of 31st March 2004, the number of stores in Singapore remained at nine (due to strategic adjustment in the retail network, three new stores opened while three stores closed during the year) and increased to ten for Malaysia with two new stores opened during the year.

### Taiwan

Turnover in the Group's Taiwan business decreased during the year by 15.4% as a result of the slow recovery after the SARS outbreak and the temporary closure of one store for relocation. Nevertheless, our operations in this market still managed to break even. A third store was re-opened in July 2003 as the only beauty products tenant in a Japanese department store in Hsinchu. As a sign of our confidence in the potential for future growth and our commitment to the market, the Group appointed a new head for the country team in October 2003.

### E-commerce – Sasa.com

Turnover for Sasa.com amounted to HK\$21.2 million, representing an increase of 69.1% over the corresponding period of last fiscal year. The performance of Sasa.com was substantially improved through such measures as strategic marketing activities, adjustments in the product mix, expansion of the product range and introduction of cost-effective delivery arrangements.

Leveraging on the strong brand name and goodwill of Sa Sa, Sasa.com has built a diverse customer base. Apart from the major markets of the USA, Korea and Hong Kong, we also have customers from other parts of the world such as Europe and Australasia, totalling over 45 countries. This in turn has helped us to enhance Sa Sa's brand name worldwide. The registered members for Sasa.com increased from approximately 50,000 to approximately 90,000, while active customers for the International web site recorded an increase of over 300%. The number of orders for the International site increased by 260%.

In terms of regional recognition, Sasa.com was awarded the 2003 "e-Korea & CEO Award" in the category of Specialised Cosmetics Shopping Site. This prize was given by Good Day newspaper, one of South Korea's most popular newspapers with a daily circulation of 800,000 copies. Winning this award shows that Sasa.com has an established foothold in the Korean cosmetics market. Indeed, Sasa.com has already become one of South Korea's most favoured on-line cosmetics shopping sites.

### Brand Management

Sa Sa's sales of private-label and exclusively distributed products increased by 18.2% and contributed 27.1% to the Group's total retail and wholesale sales for the year ended 31st March 2004. New brands secured for our exclusive distributorship included such fragrances as Feraud and Cabotine. Our reputation for brand management capabilities was further enhanced when Suisse Programme, a private label, and La Colline, an exclusive brand, were awarded the title of "Luxury Superbrand" in Hong Kong and Mainland China alongside other world-renowned international brands. Elizabeth Arden, a brand that Sa Sa carries as sole agent in Hong Kong and Macau, achieved impressive sales performance during the year.

Overall, we continue to place a special emphasis on our brand management business. During the year, we further developed close working relationships with our vendors, giving them market feedback on pricing and competition, introducing new products and product launch activities, boosting the awareness of our exclusive brands, and executing joint promotions with other distribution channels including department stores.

### Beauty Services

Despite the impact of SARS, turnover for beauty services was HK\$167.2 million, an increase of 11.8%, on a Comparable Basis. This was mainly due to the improved performance of Phillip Wain beauty and health clubs and the opening of a second Sa Sa Beauty+ beauty and slimming centre.

### Phillip Wain

Phillip Wain offers premium beauty and health ladies' clubs that cater for the discerning customer. During the year ended 31st March 2004, Phillip Wain's performance significantly improved due to enhanced service standards based on strengthened staff training, as well as to an improved cost structure that included rental reductions. We introduced new treatments and facilities, such as photo-facial treatments, and other exclusive beauty equipments and treatments by renowned brands such as Dibi Body and Olos from Italy, and Alessandro from Germany. Phillip Wain was also the first in Asia to launch "Huber" equipment, an avant-garde interactive game-exercise device. These new and exclusive products and treatments helped to drive the growth of our business. In addition, we strengthened Phillip Wain's marketing promotions, including the launch of a new TV commercial and the appointment of an additional new image woman, to increase market awareness.

#### Sa Sa Beauty+

The establishment of Sa Sa Beauty+ is intended primarily to complement our retail business development, providing all-round cosmetics and beauty services to Sa Sa customers. During the year the second new store of Sa Sa Beauty+ was opened in Kowloon, thereby extending our beauty services and enhancing the competitiveness of our retail offering. We introduced a number of new beauty treatments and facilities including photo-facial, as well as exclusive treatments and equipment such as La Colline Eye Ology and Slim Tech treatments. We also broadened the customer base to male customers by providing facial treatments and photo-facial treatments specifically for men.

The time lag between opening the second Sa Sa Beauty+ and building its customer base had some effect on the overall performance of our beauty services, but we continue to regard Sa Sa Beauty+ as a further opportunity for cross-selling our retail products.

#### Strong Brand Recognition of “SA SA”

The Sa Sa brand is gaining increasing recognition in the region. Sa Sa ranked number 9 of the Top 10 retailers in Hong Kong (the only cosmetics specialty store) in the Retail Asia-Pacific Top 500 ranked by KPMG and Retail Asia magazine in 2004. The excellence of our service was recognized when the award for the Specialty Store category of the “Service and Courtesy Award 2003” administered by Hong Kong Retail Management Association went to a Sa Sa employee. World-renowned Internet company Yahoo gave Sa Sa its “Yahoo! Emotive Brand Award 2003-04” – health and fitness category. Sa Sa store, with its trend-setting new store image, was named as “The *Cool Store*” for the Year 2004 by 8 Days magazine, one of the most popular magazines in Singapore. Sa Sa was the only cosmetics chain store named “Superbrand” for 2002-03 in Hong Kong and we repeated our success again in 2004. Phillip Wain also became a “Superbrand” in Hong Kong in 2004.

Sa Sa’s rapid progress towards becoming a household name in Mainland China was marked in November 2003 when a survey conducted by an international financial institution, CLSA, identified Sa Sa as the most popular retail outlet in Hong Kong for PRC tourists. Its similar survey in May 2004 continued to name Sa Sa as the most popular cosmetics specialty store for PRC tourists. The Guangzhou Daily, one of the most popular dailies in the PRC, also awarded the Group “The Hong Kong Merchants of Integrity Award 2003/04” in the personal care and cosmetics category.

#### Outlook

Sa Sa remains deeply committed to its vision for the future: to be the dominant cosmetic retailing and beauty services group in Asia. Looking forward, our approach to achieving this goal is based on the following strategic imperatives.

##### 1. Cosmetic Retail Specialist

Firstly, we aim to strengthen the market positioning of our retail business so that we are seen as a Cosmetic Retail Specialist. Our strategies include the provision of increasingly professional services, strengthening the retail brand recognition of Sa Sa and the overall awareness of our exclusive cosmetic brands in both existing and new markets, gradually converting existing stores to our new and appealing “younger customer” store format, and projecting a clear quality image and reputation for reliability to our customers. As part of this drive, a new TV commercial to promote our updated retail image was launched in May 2004. The Group has also committed to sponsor the Miss Hong Kong Pageant 2004 and Sa Sa stores will be the pageant’s official cosmetics specialty store while Sa Sa Beauty+ will act as the official beauty salon.

##### 2. Strong Brand Management

Secondly, Sa Sa aims to strengthen brand management by continuing to introduce a wide variety of brands, promoting continuous improvement of our product mix to support growth, developing closer relationships with our suppliers and further expanding our exclusive distributorship business. We will devote more resources towards the marketing of exclusive brands in order to boost their image and attract and retain more customers. With the assistance of our upgraded operational systems, we can provide our suppliers with more market and sales analysis and therefore more understanding of the market. This will inevitably result in more effective pricing, as well as a better product and marketing mix, subsequently increasing brand awareness and sales. Our new store design will help individual brand images to stand out, thereby enhancing the Group’s capability to secure more exclusive brands. The Group may also consider acquiring an international brand with a complementary brand positioning and distribution network to strengthen our brand portfolio and forming partnership with other brands to develop the Asian market together.

##### 3. Operational Management and Customer Service

Another of our priorities for the future is the strengthening of our existing operation management systems, including the introduction of a business intelligence system, and an upgrading of the POS system and Customer Relations Management system. Our objective is to improve data analysis as well as operational efficiency and effectiveness, thereby increasing the sales and profitability of stores and e-commerce. We aim to further improve the level of our customer service through more robust operational systems, enhanced training of sales staff and upgraded service monitoring systems.

##### 4. Beauty Services

Sa Sa’s overall vision is that of a Beauty Specialist serving the all-round beauty needs of our customers by offering comprehensive beauty products and services. To realize this vision, we will continue to strengthen the operational management of our beauty services in order to enhance the level of service as well as business performance. We will introduce more exclusive treatments and equipment to increase our competitiveness, and we will broaden the customer base of Phillip Wain to include male customers.

##### 5. Geographical Expansion

The Group’s application for a wholly owned retail license in the PRC (allowed under CEPA rules) is in progress. Such a license will give Sa Sa much greater flexibility in entering the China market. We are now making all the necessary preparatory arrangements and planning for the establishment of future operations in China. Our aim is to foster close working relations with our suppliers in the PRC and to offer alternative channels to department stores, which are now the only distribution channel for most cosmetic brands. As a specialist alternative, Sa Sa has more flexibility in the choice of store locations because of our smaller store size requirements. In the long term, we expect to provide better sales network coverage than any of our competitors. As a first step, we intend to open one or two directly managed prototype stores in major cities of the PRC in 2004.

##### 6. Further Market Share

Finally, we are focusing on gaining further market share in all existing markets.

#### Hong Kong

Hong Kong is a major beneficiary of the burgeoning Chinese consumer market. The relaxed travel policy for PRC tourists visiting Hong Kong will be further extended in 2004. In addition to the residents of Guangdong province, Shanghai and Beijing, the inhabitants from nine cities of three provinces, Jiangsu, Zhejiang and Fujian (altogether a population of 43 million people), will be allowed to travel to Hong Kong from 1st July 2004. In total, 150 million PRC residents will enjoy easier access to Hong Kong under the “Individual Visit Scheme”. According to the Hong Kong Tourism Board (HKTB), over eight million PRC tourists have visited Hong Kong since the inception of the “Individual Visit Scheme” policy in July 2003. The HKTB expects PRC tourists to exceed 20 million for the whole of the year 2004.

The projected benefits for retail stores such as Sa Sa are not only in terms of higher numbers. The independent PRC travelers now allowed to enter Hong Kong tend to have higher spending power than group travelers. The acceptance of RMB-denominated credit and debit cards in Hong Kong since 18th January 2004 is also helping to stimulate PRC tourist consumption. The appearance of several more tourist attractions on the horizon over the coming years, including Disneyland, the ASEAN Games, and new casinos in Macau will undoubtedly attract yet more visitors to Hong Kong.

In order to tap this rapidly expanding tourist market, particularly from the PRC, Sa Sa already has 21 stores located in high tourist traffic areas and will continue to open more stores and increase the store size of selected existing stores. We will open two more new stores in tourist areas, one in Mongkok and the other in Causeway Bay, by December 2004. The store in Causeway Bay, with a retail floor area of approximately 5,000 sq. ft., will become the Group’s flagship store and the largest cosmetics specialty store in Hong Kong. With the addition of these new stores and the planned expansion of some existing stores, our total retail area in Hong Kong will increase at least 14% by December 2004. We aim to further adjust our product mix to appeal to tourists’ needs and to launch effective marketing campaigns and promotions to attract tourists. The Mandarin training of our sales staff and the quality of our customer service will be further enhanced.

#### Singapore & Malaysia

Sa Sa’s objective in Singapore and Malaysia is to increase market share. We aim to convert more existing stores to the new look to broaden our customer base and strengthen our retail image. We will expand the product range, introduce more exclusive brands, enhance the merchandise mix and bolster our marketing and promotion efforts. We will also continue to adjust the existing store sizes and locations and to build closer relationships with our suppliers.

## Taiwan

In Taiwan, we are moving in the same direction. We will focus on strengthening our market positioning and boosting Sa Sa's brand image as well as introducing our new store design, strengthening the product mix and working closer with suppliers. As part of our expansion of the retail network, Sa Sa opened a fourth store in May 2004 in Tao Yuan.

## Sasa.com

The Group will continue to increase awareness of Sasa.com and to strengthen marketing in order to further increase penetration in overseas markets and broaden the customer base. Going forward, we will upgrade the operating platform so that it is able to absorb a higher volume of orders, provide greater flexibility and capabilities to cater for a wider variety of customers' preferences and needs. This in turn will enhance customer loyalty and improve sales. In addition, we aim to improve the user-friendliness of the site in order to make the on-line shopping experience more enjoyable.

## Employees

As at 31st March 2004, the Group had a total of 1,825 employees. Staff costs for the period under review were HK\$299.5 million. To ensure that the Group is able to attract and retain staff with good performance, remuneration packages are reviewed on a regular basis and performance bonus and share options are offered to qualified employees. Staff development initiatives were implemented during the year through in-house training programmes and the provision of financial subsidies for external training courses.

## FINANCIAL REVIEW

### Capital Resources and Liquidity

As at 31st March 2004, the Group's total shareholders' funds were HK\$849.6 million including reserves of HK\$720.3 million. The Group continued to maintain a strong financial position with cash and bank balances plus held-to-maturity securities in aggregate of HK\$740.1 million (please see table below). The Group's working capital was HK\$817.0 million. Based on the Group's steady cash inflow from operations and coupled with its existing cash and bank facilities, the Group has adequate financial resources to fund its future expansion.

	31st March 2004 HK\$'000	31st March 2003 HK\$'000
Held-to-maturity securities	35,181	70,544
Cash and bank balances	704,954	650,913
Total	<u>740,135</u>	<u>721,457</u>

As at 31st March 2004, the Group's held-to-maturity securities were composed of corporate bonds and bank notes with maturity dates falling within two years. This is in line with the Group's policy to invest in investment grade securities with maturity periods of less than two years. When compared with short-term deposit interest rate, the Group was able to achieve a higher yield based on its investment strategy.

During the year, majority of the Group's cash and bank balances were in U.S. dollars and were deposited in leading banks.

### Financial Position

Total funds employed (comprising shareholders' fund only) for the year ended 31st March 2004 were HK\$849.6 million, which represented a 11.7% increase over the total funds employed of HK\$760.3 million for the year ended 31st March 2003.

The gearing ratio, defined as the ratio of total loans less cash and bank balances to total assets, was nil as at 31st March 2004 and 31st March 2003.

### Treasury Policies

It is the Group's treasury management policy not to engage in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management with no significant borrowing during the year. Most of the assets, receipts and payments of the Group are either in Hong Kong or U.S. dollars. However, the Group will monitor its foreign exchange position and, when appropriate, the Group will hedge its non U.S. dollar foreign exchange exposure by way of forward foreign exchange contracts. As at 31st March 2004, the Group had HK\$65.9 million outstanding forward foreign exchange contracts committed for payment in foreign currencies in the coming year.

### Charge on Group Asset

At 31st March 2004, no Group asset was under charge to financial institution.

### Contingent Liabilities

The Group had no contingent liability as at 31st March 2004.

## FINAL DIVIDEND AND SPECIAL DIVIDEND

The Board has recommended a final dividend for the year ended 31st March 2004 of 5.0 HK cents per share (2003: 4.0 HK cents) and a special dividend of 4.0 HK cents per share (2003: Nil) to be payable to shareholders whose names appear on the Register of Members on 26th August 2004.

The final dividend and special dividend will be paid around 1st September 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23rd August 2004 to 26th August 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the aforementioned final dividend and special dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Abacus Share Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 20th August 2004.

## ISSUE OF SHARES

During the year, the Company issued and allotted a total of 26,385,000 shares of HK\$0.10 each of the Company to certain staff members and an ex-director pursuant to their exercise of share options under the schemes adopted by the Company on 22nd May 1997 and 29th August 2002 and share options in accordance with the terms set out in the service agreement entered into between the Company and the ex-director on 2nd August 1999 respectively. The issue of shares to the ex-director constituted a connected transaction for the purpose of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and was approved by shareholders of the Company at the extraordinary general meeting on 14th September 1999.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

### (I) Board Committees

#### Audit Committee

In compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules ("Code of Best Practice"), the Company has established an Audit Committee in 1999. The committee comprises three independent non-executive directors, Professor Chan Yuk Shee who is the chairman of the committee, Dr. Leung Kwok Fai, Thomas and Ms. Tam Wai Chu, Maria. The committee has adopted the terms of reference governing its authority and duties.

The Audit Committee reviews the systems of internal controls throughout the Group, the completeness and accuracy of its accounts and liaises on behalf of the Board with external auditors and the Group's internal auditors. The committee members have met with management, external and internal auditors and reviewed the internal and external audit reports and the interim and annual accounts of the Group.

#### *Compensation Committee*

The Compensation Committee reviews the compensation and benefits schemes, including the share option and incentive schemes, for staff of the Group and advises on any issues relating to human resources management and policy formulation of the Group from time to time. The present members of the committee are Dr. Leung Kwok Fai, Thomas, who acts as the chairman, Mrs. Lee Look Ngan Kwan, Christina and Mrs. Kwok Law Kwai Chun, Eleanor.

#### *Executive Committee*

The Executive Committee exercises the powers, authorities and discretions of the Board in so far as they are concerned with the management and day to day operation of the Company in accordance with such policies and directions as the Board may from time to time determine. The present members of the committee are Mr. Kwok Siu Ming, Simon, who acts as the chairman, Mrs. Kwok Law Kwai Chun, Eleanor and Mr. Look Guy.

#### **(II) Investor Relations**

The Group commits itself to fostering a good and long-term relationship through open and prompt communication with shareholders and investors. Various communication channels are therefore established. Apart from the annual general meeting where shareholders can raise their comments on the Group's performance with Directors, press and analysts conferences are held at least twice a year subsequent to the interim and final results announcements. At these our management team explains the Group's business performance and future direction. The Group also avails itself of opportunities to communicate its strategies to investors and the public through active participation at investors conferences, regular meetings with fund managers and potential investors, as well as press interviews and timely press releases. During the year, the Group participated in various road shows and conferences summarized as follows:

<b>Date</b>	<b>Event</b>	<b>Organizer</b>	<b>Location</b>
March 2004	Asian Investment Conference	CSFB	Hong Kong
February 2004	Road show	JP Morgan	Singapore
February 2004	Investor luncheon	Deutsche Bank	Hong Kong
February 2004	Investor luncheon	UBS	Hong Kong
February 2004	CLSA Corporate Day	CLSA	Hong Kong
December 2003	Investor breakfast meeting	HSBC	Hong Kong
October 2003	Citigroup Smith Barney Corporate Day	Citigroup Smith Barney	Hong Kong & Singapore
September 2003	Deutsche Bank Corporate Day	Deutsche Bank	Hong Kong
August 2003	Investor luncheon	CLSA	Hong Kong
August 2003	Road show	HSBC	Singapore

#### **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice throughout the year, except that one of the independent non-executive directors is not appointed for a specific term as recommended under paragraph 7 of Appendix 14 of the Listing Rules but is subject to retirement by rotation at the annual general meeting in accordance with the Articles of Association of the Company. This independent non-executive director has been re-designated as a non-executive director effective 24th June 2004 for a term of three years commencing 24th June 2004.

#### **PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE**

A detailed results announcement containing all information required by paragraph 45(1) to 45(3) of Appendix 16 of the Listing Rules in force prior to 31st March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1st July 2004 under the transitional arrangements, will be published on the website of the Stock Exchange in due course.

#### **BOARD OF DIRECTORS**

As at the date of this announcement, the Board comprises Mr. Kwok Siu Ming, Simon, Mrs. Kwok Law Kwai Chun, Eleanor and Mr. Look Guy as executive directors, Mrs. Lee Look Ngan Kwan, Christina as non-executive director and Professor Chan Yuk Shee, Dr. Leung Kwok Fai, Thomas and Ms. Tam Wai Chu, Maria as independent non-executive directors.

On behalf of the Board, I would like to extend my thanks and appreciation to all our staff for their hard work and commitment and to all of our customers, suppliers and shareholders for their continued support.

By Order of the Board  
**Kwok Siu Ming, Simon**  
*Chairman and Chief Executive Officer*

Hong Kong, 28th June 2004

“Please also refer to the published version of this announcement in China Daily”.